Builder's Nightmare

Putting Up Skyscraper In New York Can Prove Agonizing Experience

A Strike, Labor Shortage Delay Tower's Completion And Send Costs Soaring

Zooming Rents Ease Pain

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NEW YORK—People who get fidgety waiting for an elevator can well appreciate the uneasiness of Morris Karp. He has been waiting 110 days for an elevator to run in the Gulf & Western Building under construction at Columbus Circle on New York's west side.

Mr. Karp is the president of Realty Equities Corp., which broke ground in March 1968 for what eventually will be a sleek, soaring 44-story office tower. When he broke ground, he figured the tenants would begin moving in about now, and they would have if the elevator installers had not gone on strike 16 weeks ago.

After the men struck, construction was slowed because workers had to walk up to their jobs. Then the city ordered most work halted on tall buildings because workers on upper floors wouldn't be able to escape if a fire occurred. As a result, Mr. Karp now figures the first tenants won't be able to move in till early January if the strike is settled soon, which now seems likely.

The delay is costing Realty Equities $25,000 a day in construction costs and in lost rentals. Builders of more than 40 other skyscrapers currently going up in the city are vulnerable to similar losses. But the builders are fairly philosophical about their troubles. You have to expect some problems in putting up a skyscraper, they say.

How to Die Young

Indeed, a close look at the construction of the Gulf & Western Building indicates that if a builder worried a lot about problems he would die of hypertension before the building got half way up. At the Gulf & Western Building, not only have workers struck, but also broken water mains have flooded the excavation and necessitated costly overtime, lenders have balked, labor has been in short supply and city officials have made "suggestions" that have proved costly to the architect, though he says he welcomed them. And costs have constantly soared—though Realty Equities contracted for much of its work before the cost climb got really out of hand.

In the three years since the Gulf & Western Building was conceived, construction-material prices have risen 12% and labor costs have climbed 30%. The cost of basic electrical work has risen 45%. But the demand for rental space has grown so rapidly that rental fees jumped more than 100% between the time Realty Equities began leasing space in the building and the time it leased the final floors.

The first talk of putting a skyscraper on the Columbus Circle site took place almost exactly three years ago when Investors Funding Corp., a New York real estate investment company, offered the Columbus Circle plot to Realty Equities. [illegible]

Problem No. 1

The 31,000-square-foot site is triangular, and says Mr. Karp, "the history of triangular plots in New York City is filled with unprofitable triangular buildings." The shape is uneconomical," he says, "and they are hard to rent." Others question his claims however. They point out that one of the world's first skyscrapers, the triangular Flatiron Building at 23rd and Fifth Avenue in New York, has been heavily rented ever since its erection in 1902.

Nevertheless, Mr. Karp decided to have a go at it—though he eventually decided to make the building rectangular with a smaller rectangular section jutting into one of the corners of the triangular plot. The building covers only 10,000 square feet, with the other 21,000 given over to plazas and walks. Mr. Karp won't say how much the Columbus Circle plot cost, but it is believed to have been well over $7 million. He figured the land and the building had to return 15% annually on the cost in order to make the investment worthwhile, and he calculated the only building that would return that much on such a valuable plot would be an office building.

"But," he says, "a lot of people were saying you couldn't build an office building there. Central Park West (which borders one side of the triangle) is solid apartments. The General Motors Building was going up a few blocks away, a potential glut on the market, and there were already a few office vacancies in the area. But we thought the future of the office market looked good, and we decided to see what we could do."

As it turned out, Mr. Karp couldn't have been more correct about the future of the office market in New York. Realty Equities leased the first space in its proposed building to Gulf & Western Industries in March 1967 for $6.25 a square foot. Early this year, when it leased the final floors, it was getting $15 a square foot.

"The most we ever dreamed we'd get was about $9.25 a foot," says Jerome Deutsch, executive vice president of Realty Equities.

Finding a Tenant

Once Realty Equities decided to put up a building, it wanted to move fast. This was December 1966, and interest rates were rising and money was becoming hard to get. But first Mr. Karp had to find a tenant that would rent enough space to assure lenders that the building would be profitable.

"Every time I picked up the paper in those days I kept reading about Gulf & Western making another acquisition. I'd never met any of the people there, but on the chance they might be looking for office space I called them up," says Mr. Karp. Gulf & Western was looking, and by January Gulf & Western and Realty Equities had agreed on a design for the building. By March, Gulf & Western had signed a lease to take 17 floors of the building, which Realty Equities agreed to name the Gulf & Western Building.

Including the cost of the land, Realty Equi-

[illegible] needed almost $27 million to fi- [illegible] approached the [illegible] Insurance & Annuity Association of America, a New York insurance company, and got a commitment for $15 million at 6.625% annual interest. Realty Equities wanted a bigger loan, but Teachers Insurance balked and would allot only $15 million.

Even so, financial experts say Realty Equities was smart to take what it could get at that interest. Six months later, they say, the company would have had to pay at least 7½%. And today, if the money were available, it wouldn't be lent for less than 9½% plus a promise to let the lender buy a piece of the building.

Unable to find any more relatively inexpensive money, Realty Equities got another $2 million in financing from U.S. Life Insurance Co. at a whopping cost of 9.875%. The $17 million was committed only upon occupancy of the building by Gulf & Western by April 1970, however, so a construction loan, at about 8%, had to be obtained from a bank to finance the work on the building.

An Objection From G&W

Knowing that it had commitments for $17 million and that the whole affair would cost about $27 million, Realty Equities began looking around for more money. It decided to sell the land to the General Electric Pension Trust for $5.4 million, considerably less than it is said to have paid for the plot, but it received favorable leaseback terms along with the cash. Then it sold a minor interest in the project for $4 million to a group of private investors in California.

Finally, in the summer of 1967, Realty Equities turned to design and construction. It hired an architect, and it held talks with three general contractors—and liked the terms offered by none. It began to think it could do better as its own contractor, handling the job itself as it had done on projects in other cities.

But Gulf & Western objected strenuously. By this time it was October 1967, and Gulf & Western had committed itself to renting another five floors, making it the tenant for half the 44 floors. "It was our building with our name on it, and we didn't want anything to go sour," recalls a Gulf & Western executive. "We wanted a contractor with plenty of experience on New York office buildings, and we suggested they get together with HRH Construction Co."

They did, and a deal was made. The 10 months that it took between the time the architect was hired and the time ground was broken in March 1968 is about average for a big private building. And it's just half the time it takes the Government to get going on one of its buildings.

The City Gets Involved

Before construction started, however, the builders had to get a zoning variance from the city. In return, city officials pressed for some changes in the building. They asked that the structure's open plaza be raised above street level and be used as a podium for the tower. They asked that trees be put in planters on the plaza and that the builders create a round well as a subway entrance. All the suggestions were accepted.

"It took more time and cost more money to deal with the city," says architect Thomas E. Stanley, "but the net effect was beneficial. Their suggestions were good, and we got a better building." Mr. Stanley works on a flat fee, however, so he, not Realty Equities or Gulf & Western, got stuck with the added costs.

By August 1968, the excavation was finished and crews were getting ready to set vertical columns on the concrete footings. But on Aug. 2, a water main broke on 61st Street, flooding the excavation. Some people say the main was old and weak and just gave way; others say the main was weakened by improper shoring of the building's foundation.

Whatever the cause, it played havoc with the construction. The job was delayed for more [illegible]

out and the footings prepared again. "But when you talk about a six-week delay, you have to add another third for time lost in recoordinating all the other trades that couldn't do their jobs because they had to wait for the excavators, the steel and so on," says Anthony Raffaniello, HRH's construction superintendent at the site.

To make up for lost time, Realty Equities authorized extensive overtime. As the job went along, electricians picked up $18,000 in overtime pay, the men who put up interior partitions got $25,000 and masons got another $25,000.

The Labor Shortage

"That's nothing," says an official of HRH. "We have a job right now where we've spent $250,000 in overtime on electricians, steamfitters and sheet metal workers—and it probably has saved the owner twice that amount." Indeed, Realty Equities officials, noting that each day's delay costs $25,000, figure the overtime they have paid is well worth it.

Also driving up the overtime expense has been an acute manpower shortage. "We should have 45 electricians working on the Gulf & Western Building," says an HRH vice president. "All we can get is 20. We need about 25 sheet metal workers; all we can get is 12. Those two shortages alone are extending the job by three or four weeks." The overtime comes out of the corporate pocket of Realty Equities, not HRH, which contracted for the building on a cost-plus-fixed-fee basis.

But if Realty Equities was hit hard with costly problems, it also was lucky in some respects. The dramatic rise in material costs did not greatly affect it because most commitments were made before the prices rose. Sheet metal ducts, for example, were contracted for at a cost of $1.85 a pound installed, with the price guaranteed until June 1970. Prices have since risen 30%, says an HRH official. Similarly, basic electrical work was contracted for at about $1.2 million; today, it would cost close to $1.8 million.

And despite the elevator strike, the past couple of years have been noteworthy for the labor peace in New York. Last July, 17 of the city's construction unions signed new contracts without strikes and three others settled after only brief walkouts. What's more, the added costs of the new labor contracts didn't cost Realty Equities anything—the work had all been contracted out earlier at the then-existing rates.